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Manufacturing growth eases at start of third quarter



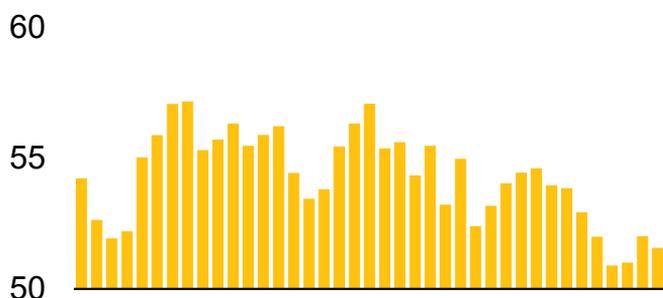
Key findings

Australia's manufacturing sector started the third quarter on a softer note, with the latest survey data indicating a moderation in growth. Expansions in both output and new orders eased in July, while firms cut back on stock-building. However, business sentiment remained positive. Meanwhile, cost inflation intensified on the back of a weaker exchange rate, pushing firms to raise selling prices further.

Commonwealth Bank Manufacturing PMI[®] May 2016 – Jul 2019

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

The headline index from the survey, the seasonally adjusted Commonwealth Bank Manufacturing Purchasing Managers' Index™ (PMI[®]) edged down to 51.6 in July, from 52.0 in June. The latest reading was below the average seen over the first half of the year, indicating only a modest improvement in the health of the manufacturing sector.

The headline PMI is a single-figure composite indicator derived from questions on output, new orders, employment, input inventories and delivery times, and designed to provide a quick snapshot of the performance of the manufacturing economy.

Summary

	PMI	Interpretation
Jul-19	51.6	Expansion, slower rate of growth
Jun-19	52.0	Expansion, faster rate of growth

Signs of weakening demand conditions emerged in July as indicated by a slower rise in overall new orders. A further decline in new export sales also weighed on overall sales growth. Anecdotal evidence pointed to subdued client demand as a key factor behind the modest rise in overall order books.

Slower inflows of new business led to the development of spare capacity as signalled by a renewed fall in the level of unfinished business during July. Falling backlogs have now been recorded in three of the past four months.

Meanwhile, purchasing activity rose at the weakest rate in the survey history during July, with the exception of a decline seen in April. This, in turn, led to a fall in stocks of purchases, which was the steepest since the survey began in May 2016. Respondents mentioned efforts to reduce stock-holdings and improve cash flows as factors behind lower inventories. Meanwhile, holdings of finished goods fell for a fifth consecutive month in July.

Supply chains remained under pressure at the start of the third quarter, with anecdotal evidence suggesting that a lack of raw materials, such as steel, chemicals and food items, alongside shipping delays contributed to longer delivery times.

Inflation meanwhile intensified in July, partially lifted by a weaker exchange rate. Input costs rose at the fastest rate for three months, prompting firms to raise output charges at a quicker pace. Higher commodity prices and increased suppliers' fees were also reasons cited for higher input prices.

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About Commonwealth Bank Manufacturing PMI® and the Purchasing Managers' Index™ Report

The Commonwealth Bank has commissioned IHS Markit to conduct research and provide insights for this edition of the Commonwealth Bank Manufacturing PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector manufacturing firms in Australia. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following nine broad categories: Food & Drink, Textiles & Clothing, Wood & Paper, Chemicals, Plastics & Rubber, Metals & Metal Products, Electronic & Electrical Equipment, Machinery & Equipment, Transport Equipment and Other Manufacturing.

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